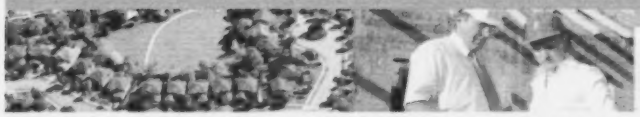
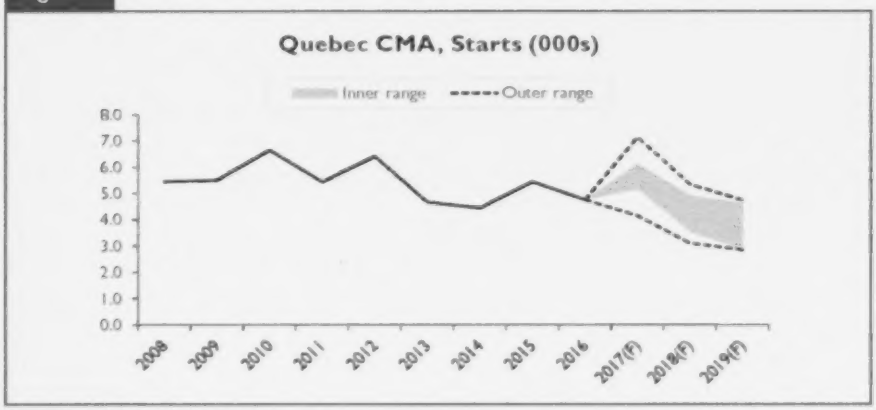
HOUSING MARKET OUTLOOK
Québec CMA



CANADA MORTGAGE AND HOUSING CORPORATION

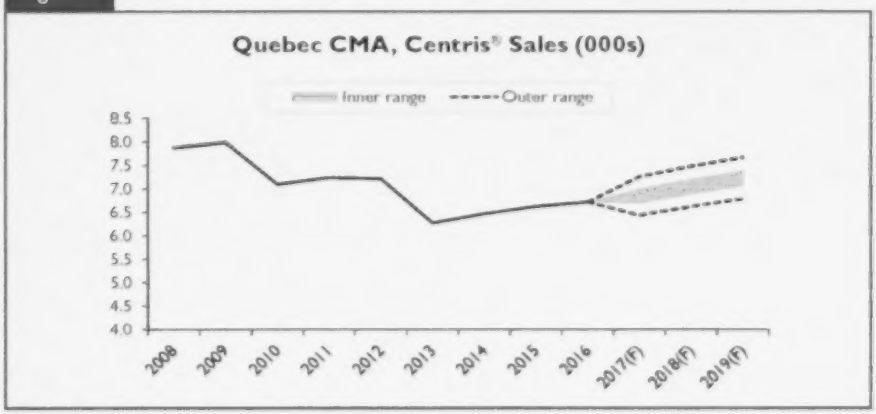
Date Released: Fall 2017

Figure 1



Source: CMHC; (F): CMHC Forecast

Figure 2



Source: QFREB; (F): CMHC Forecast

Highlights[1]

- After a particularly active year in 2017, the new home market will lose some momentum over the next two years.
- Centris® sales—supported by employment growth—will stay on an upward trend from now until 2019.
- The large supply of rental housing units will drive up the vacancy rate this year and next, with the rate then stabilizing in 2019.

New home market: downward adjustment on the horizon

After a particularly active year in 2017, the new home market will lose some momentum in 2018 and 2019, mainly on account of rising inventories of conventional rental units for rent[2] and condominiums for sale. Housing starts will therefore range between 5,150 and 6,150 units in 2017 and between 2,855 and 4,645 units in 2019.

For the past three years, the numbers of conventional rental housing starts have steadily pushed up supply as well as the vacancy rate. Even though

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

[2] See the section on the rental market.

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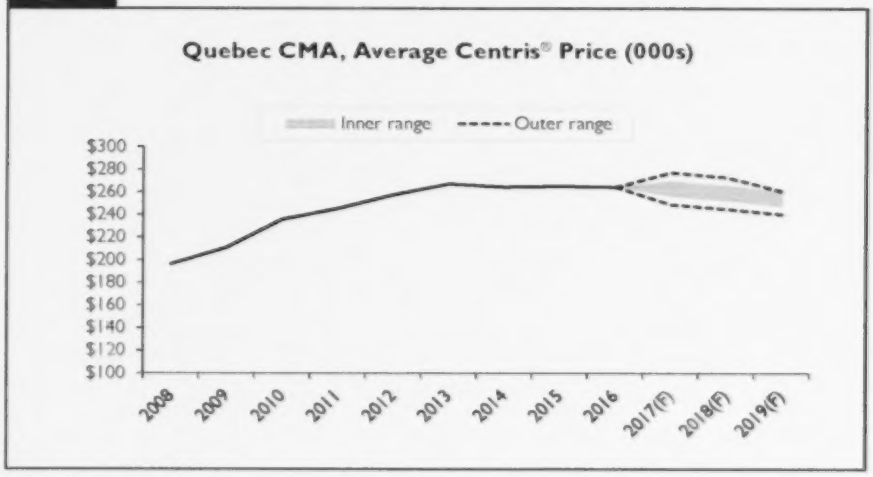
prevailing conditions will favour an increase in demand for rental housing, the rise will not be sufficient to allow for a rapid absorption of the new supply. Starts of this type are consequently expected to decrease from now until 2019.

In 2017, a relatively large number of seniors' rental housing starts will be recorded. In fact, it is expected that supply in this market segment will increase over the next two years, as a result of the anticipated rise in the number of people aged 75 or older—the main client group for this segment.

As for condominium starts, they should remain limited, given the growth in the number of new completed and unsold units from now until 2018 and the high inventory of units for sale on the existing home market.

Supported by employment growth over the next two years, the construction of single-detached, semi-detached and row homes will increase but will still remain lower than in the past 10 years.

Figure 3



Source: QFREB; (F): CMHC Forecast

Existing home market: transactions to continue picking up the pace

Centris® sales—supported by employment growth[3] —will stay on an upward trend over the next two years. The impact of the rising mortgage interest rates will factor into the equation, however, which will limit the potential growth of the resale market. Total Centris® transactions are expected to range between 7,050 and 7,400 units in 2019.

The stronger demand will contribute to lowering the inventory of properties for sale. Market conditions[4] will therefore be slightly tighter, and the relationship between buyers and sellers should be balanced for single-family houses. In the case of condominiums, though, the pace of sales will not be sufficient to rebalance market conditions, which will continue to favour buyers in that segment.

This will affect the average price of residential properties. In fact, the average price of condominiums is expected to decrease, by about 5%, while the average for single-family homes will change very little. As a result, the average price of residential properties will fall slightly over the next two years.

Rental market: vacancy rate expected to rise

The particularly significant increase in the supply of rental housing units will drive up the vacancy rate this year and next, even though demand for this type of housing is expected to grow.

In fact, demand is expected to rise slightly from now until 2019, thanks to job creation and somewhat stronger migration. However, the increase in demand will not be sufficient to result in a rapid absorption of the considerable number of new units that will be added to the current supply. The dynamics between supply and demand will push up the vacancy rate to 6.0% this year, compared to 4.9% in 2016.

Next year, the vacancy rate will rise again, reaching 6.5%, given the large number of units that will be completed from now until then. The market should however stabilize in 2019, following the downward adjustment in starts.

The considerable number of new units, which generally have higher rents than the average for the market,

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[3] See the section on economic and demographic factors.

[4] As measured by the active Centris® listings-to-sales ratio.

will put upward pressure on the average rent[5] in the area. As a result, the average rent will rise: for two-bedroom apartments, the average will increase from $808 in 2016 to $825 in 2017, then to $835 in 2018 and, finally, to $840 in 2019.[6]

Economic and demographic factors: employment to show some improvement but population growth expected to be moderate

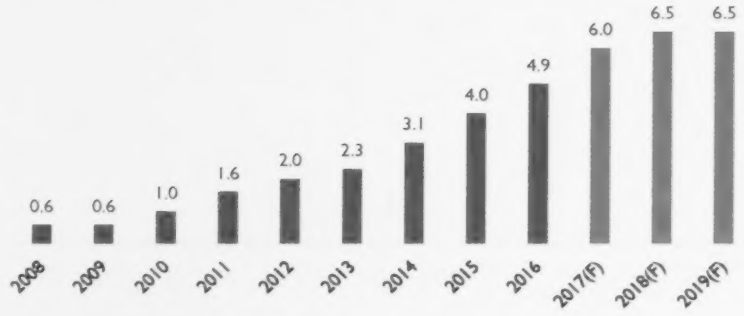
This year, employment showed renewed growth in the Québec census metropolitan area (CMA). This upward trend in employment, and particularly in full-time jobs, should continue over the next two years. The strong North American economy and multiple public and private investment projects will drive this growth.

On the demographic front, there will be a slight slowdown in population growth: the natural increase will be somewhat lower[7], while net migration—notwithstanding a small upward adjustment—will reach a level below the average of the last 10 years.

The good employment performance will therefore lead to a slightly stronger increase in demand on the existing home market than in recent years. Still, along with the minor slowdown in population growth, it should be kept in mind that the inventories of new and existing homes for sale and for rent will remain significant and limit the needs on the new home market. And, the aging of the population, which will stimulate demand for seniors' housing units, should also be factored into the equation.

Figure 4

Québec CMA, Rental Apartment Vacancy Rate (%)*



Source: CMHC; (F): CMHC Forecast
*: Private structures with three or more apartments

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

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[5] The average rent reflects both occupied and unoccupied units.

[6] This trend in the average rent will however be different from the trend in the estimated change in the average rent, which is based on the same buildings, from one year to the next, and further reflects the change for occupied units. With a rising vacancy rate, competition among landlords will intensify and upward pressure on the average rent for occupied units will be weak. There could instead be an increase in rental incentives, such as offers of months of free rent to attract tenants.

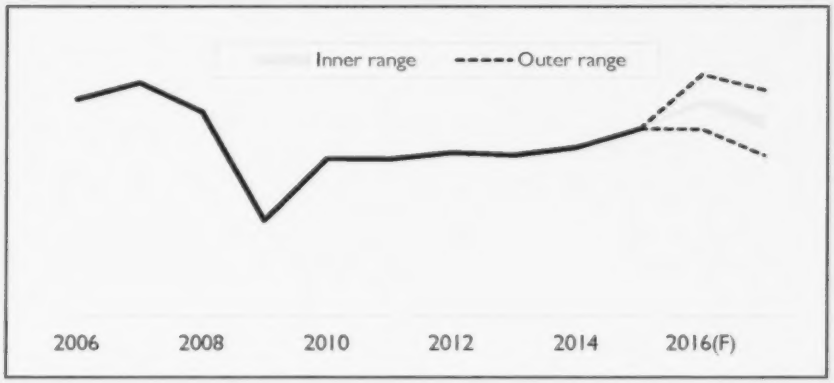
[7] Source: Institut de la statistique du Québec, Components of annual population growth by scenario (http://www.stat.gouv.qc.ca/statistiques/population-demographie/perspectives/population/index_an.html).

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Québec CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	887	826	873	805	995	740	1,110	680	1,220
Multiples	3,562	4,616	3,893	4,345	5,155	2,775	3,825	2,175	3,425
Starts - Total	4,449	5,442	4,766	5,150	6,150	3,515	4,935	2,855	4,645
Resale Market									
Centris® Sales	6,468	6,621	6,718	6,685	7,015	6,880	7,220	7,050	7,400
Centris® Average Price($)	264,366	265,204	264,420	255,900	270,100	252,000	265,995	247,140	260,860
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	3.1	4.0	4.9	6.0	6.5	6.5
Two-bedroom Average Rent (October)($)	775	788	808	825	835	840
Economic Overview						
Population	796,529	801,292	807,211	812,460	817,330	821,400
Annual Employment Level	433,700	442,300	438,500	443,500	445,500	449,500

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Centris®. CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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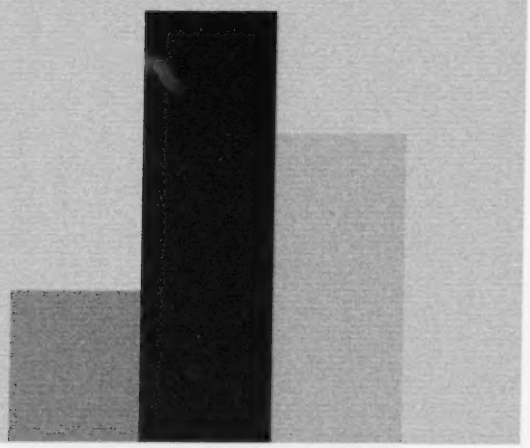

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